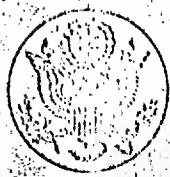


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DEPARTMENT OF STATE

Washington, D.C. 20520

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MEMORANDUM FOR MR. HENRY A. KISSINGER
THE WHITE HOUSE

Subject: PFIAB Report on Economic
Intelligence

We have read with great interest the PFIAB Report to the President on economic intelligence. We are in strong agreement with the major thrust of the Report in urging more effective use of economic intelligence in carrying out US economic, political and security interests.

The Report raises two central issues which are of principal interest to this Department as well as, we believe, to other agencies: (1) the provision of economic intelligence and analysis in support of the US foreign economic policy-making process, including in particular the President's Council for International Economic Policy (CIEP); and (2) the adequacy of the support provided by the US Government to American business interests abroad. We should like to confine our comments to these two central concerns.

Economic Intelligence and Analysis in Support of
Policy-Making

The Report expresses concern about the inadequacy of economic intelligence and analysis in supporting US economic interests. It argues that such economic intelligence as has been collected and produced since World War II has concentrated on matters relating to the military and political aspirations of the Communist Bloc and in preventing the shipment of strategic materials to it. It feels that Free World economic matters were relegated to a low priority and that insufficient support has been given to new national economic considerations of fundamental importance not only to the economic interests of

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the United States but also to its national security. It thus calls for "a new, broad-based concept of economic intelligence which encompasses not only those aspects affecting our diplomatic and military programs, but also monetary, commercial, and technological developments which increasingly have serious implications for our economic survival". We share these views.

We also endorse the PFIAB view that more intensive effort is needed to provide economic analysis and research in support of the US foreign economic policy-making process, particularly CIEP. We agree with the proposal that additional resources be directed toward this effort.

The Report has correctly noted that existing National Security Council Directives have assigned primary responsibility for the production of Free World economic intelligence and analysis to the Department of State. The Report is also correct in noting that the State Department has at the moment inadequate economic intelligence and research capabilities and is doing only a small part of the job it was asked to perform. We regret this fact. It is a problem, however, which the Department recognized some time ago and has taken some initial steps to correct within the limits of budgetary constraints.

The PFIAB Report further confirms our earlier judgment that the Department should give increased attention to this area. We believe that the NSC Directives are correct in assigning to the Department primary responsibility for the production of Free World economic intelligence and analysis. We feel that the Department, given adequate resources, is in a better position than CIA or any other agency to perform this function. By virtue of its diplomatic and consular responsibilities abroad, the Department is intimately aware of the issues and concerns in the forefront of foreign economic policy, and is uniquely qualified to develop a coordinated program of analytical support responsive to US policy requirements and interests. The Department is thus the most appropriate body to take the leadership, in close collaboration with other agencies, in providing a common basis of economic analysis in support of decision-making in the foreign economic policy area.

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With this objective in mind, we are now consulting with OMB on ways and means to provide the resources to enable the Department to do the job.

Further, to assist in meeting the needs noted by PFIAB, we propose the establishment of a new interagency committee somewhat analogous to the US Intelligence Board (USIB). As the USIB does in other areas, the purpose of the new committee would be to identify research requirements and provide a common basis of economic intelligence and analysis to support decision-making in the foreign economic policy area. The membership of the committee would include all the agencies represented in CIEP plus the CIA. This committee might be a subcommittee of the Operations Committee of CIEP or of the NSC Under Secretaries Committee, or an independent body. An independent committee might be preferable in making clear the obligation of the committee to prepare objective economic assessments and in attempting to prevent as much as possible its individual members becoming captives of the established policy predilections of their superiors in their respective agencies.

Consistent with existing NSC Directives assigning primary responsibility for Free World economic intelligence and analysis to the Department of State, we believe that the Department should chair the committee. As chairman, the Department would be expected to provide the necessary secretariat services. Analogous to the function of CIA in its chairmanship of the USIB, the Department would undertake the basic responsibility of assuring the preparation of initial drafts of papers as circumstances require. Other agencies would be invited to contribute to the preparation of such drafts and even to prepare complete drafts for review by the committee where they are willing and the best qualified to do so.

We believe that an arrangement of this sort would go a long way in meeting the concerns expressed by PFIAB and in providing the broad-based approach they urge toward economic intelligence and analysis in support of foreign economic policy decision-making and the general advancement of our political and security, as well as economic, interests.

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Adequacy of US Support of Business Interests Abroad

The Report is severely critical of the support provided by the US Government, including US Embassies and our Foreign Service, to American business abroad. It suggests that US Embassies have been unable, unwilling, or disinterested in assisting American businessmen in pursuit of foreign markets. It believes that US businessmen have not been sufficiently alerted to business and commercial opportunities abroad and have not been provided with the economic and political intelligence necessary to enable them to make enlightened and responsible decisions.

We cannot agree with this assessment of the inadequacy of US support, including support by our Embassies, to American commercial interests abroad. PFIAB's criticism relates more to an earlier period and fails to take account of changes which have occurred.

Within the last five to ten years, a major turnaround has been under way in the attitude of the US Government, including the Foreign Service and our Embassies, toward assisting American business interests. We have redirected our officer recruitment, increased commercial and economic training programs, and enhanced the place of commercial work in the Foreign Service career system. Other agencies, including the Department of Commerce, have contributed to this effort, and the situation has been much redressed from that of the earlier period. Washington has made clear to our Embassies that the provision of assistance to American business interests abroad must receive very high priority among their responsibilities. To some extent, complaints by American business about US economic representation abroad reflect a frustration with the increasingly stiff foreign competition, with our balance-of-payments problem and economic malaise at home.

However, we are still far from satisfied with the effectiveness of our trade promotion effort and are directing continuing attention to ways and means of enhancing this effort. The Department, in collaboration with the Department of Commerce, is actively studying how we can further improve our support of American business. The Inspector General of the Foreign Service began an

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evaluation of our economic and commercial functions several months ago. The matter is being examined in detail by an OMB study team, which will recommend improved procedures, and by a special mission, now in Western Europe, conducted by Ambassador John C. Peterhoff who is representing the Secretaries of State and Commerce. While the Department has no objection to another review of the subject by CIEP, as proposed by PFIAB, we question the need for it in light of the reviews already in progress, particularly the comprehensive study by OMB.

Theodore L. Eliot,
Executive Secretary

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